

ANNEX BULLETIN

Annex Bulletin 2009-02

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EDITORIAL COMMENT

Updated 1/07/09, 2:30PM MST

Another "Mega Scandal" Breaks Out in India

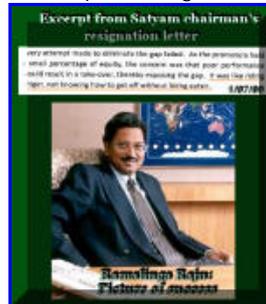
When You Catch a Tiger by the Tail...

Satyam's Chairman Resigns, Comes Clean on His Lies; A Rags-to-Riches-to-Rags Story; Beware Megalomaniac Dreams

SCOTTSDALE, Jan 7 – It is more than a little ironic that the company whose name means Truth in Sanskrit should be caught up in a web of lies and deceptions spun in India's nascent IT services industry's first "mega scandal." Satyam's chairman Ramalinga Raju resigned today, after fessing up about falsifying company records, and inflating Satyam's revenue and profit figures



over a period of several years. The company's shares plunged over 84% today, after being down 70% already since the 52 week-high high set on May 30, 2008 (left).



"It was like riding a tiger, not knowing how to get off without being eaten," Raju said in his resignation letter (right).

The tiger's name in Satyam's case was Success. And an Indian should know about tigers and be wary of them. But Success in a *business* jungle may be a new danger for the Indians.



Raju's lament sounded familiar even to this Arizona desert rat. And not just because he has had once a good fortune to hold a tiger in his hands (left), and tell about it afterward. Also

because he has seen many times before how Success can crawl under one's skin and cloud good judgment. Check out the following verses on that topic we published almost a quarter century ago:

When You Catch a Tiger by the Tail

"A smiling young lady from Niger,
Once went for a ride on a tiger.
They returned from the ride,
With the young lady inside,
And the smile on the face of the tiger.

Also check out...

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[Squeezing the Consumer Dry](#) (Greed fueled both bankers & oilmen's try to squeeze blood out of stone - consumer)

(from the Apr/84 Annex Bulletin on IBM Credit Corp.
"From Rags To Riches In 18 Months")

Satyam's is another rags-to-riches-and-back-to-rags story. Son of a farmer, Satyam's founder was among the first to recognize the potential for Indian technology companies to grow by addressing the "Y2K" problem. Eventually, he grew his company into India's fourth-largest IT services firm with revenues of over \$2 billion and 53,000 employees, based in the southern Indian city of Hyderabad. Satyam's clients include some well known global giants such as Nestlé, GE, Sony and Nissan and others. The company is also listed on the New York Stock Exchange under the symbol SAY.



In other words, up until this morning, Satyam was a model of Success. No longer. That's how quickly a Success tiger (left) can shape-shift into a Failure hyena (right).



Raju explained in his resignations letter how Satyam inflated its operating profit for the three months ended Sep 30 to 6.49 billion rupees (\$136 million), from 610 million rupees reported previously, while revenue was overstated at 27 billion rupees instead of from 21 billion rupees. It had reported an operating margin of 24% which was actually 3%.

Raju also said Satyam's balance sheet as of Sept. 30 had a non-existent cash balance of 50.4 billion rupees; non-existent accrued interest of 3.76 billion rupees; an understated liability of 12.3 billion rupees; and an overstated debtor position of 4.9 billion rupees compared with 26.51 billion rupees reflected in its books.

"This has resulted in artificial cash and bank balances going up by 5.88 billion rupees in the second quarter alone," admitted the embattled Indian executive whose net worth was over \$650 million last year.

One thing that the Satyam's former chairman claims he did not do is try to profit personally from his financial scam. On the contrary, he stands to lose as much as any other shareholder from the devaluation of the stock.



If true, that sets him apart from the domestic scumbags like the disgraced financier Madoff (left) who made off with tens of billions of dollars of his clients' money (pun intended).

The Madoff scandal allegedly involved a Ponzi scheme in which people were persuaded to invest in a fraudulent operation. The early investors were paid bogus profits out of money put in by later investors.

Meanwhile, Madoff, who owns yachts and mansions in New York's Long Island Hamptons and Palm Beach, FL, has been confined to his Manhattan apartment under house arrest. Some hardship that is, compared to thousands of his clients who have lost millions, some even all of their life savings.

Raju, The Philanthropist

By contrast, India's Raju was a model corporate citizen and a philanthropist to boot. He not only made money for his shareholders, but also tried to help the poor in his homeland (this writer took the left photo in the slums of Mumbai where people scavenged through heaps of trash looking for scraps of food).



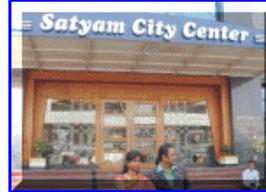
Raju and his brother started the Byrraju Foundation, for example, intended to use technology to help improve the lives

of people in rural areas from which they hailed.

The Byrraju Foundation, with 1,500 employees, has set up health, drinking water, sanitary, literacy and other services in 200 villages in Andhra Pradesh, a state in southern India from which the former Satyam chairman hails.

Another foundation Raju started in recent years was a health line that takes 50,000 calls a day and sends out hundreds of ambulances across the state.

"In other countries, plans of this size have been implemented in seven or eight years. Here it was seven or eight months," Mr. Balaji, chief executive of Health Management and Research Institute, one of the nonprofit foundations the former Satyam chairman had started, [told the Wall Street Journal today](#).



Yet another foundation is working on a "telemedicine" prototype to make it possible for doctors to diagnose patients remotely in rural areas using information technology.

Raju is said to have had two mantras: scale and speed. He was driven to implement projects on as large a scale as possible -- and do it fast, those who know him told the Journal. Which is why throwing in the towel had to have been particularly painful for a man as ambitious as that.

Lessons Learned

The only thing that Madoff and Raju seem to have in common is that they have both deceived the public and their investors. But while the New Yorker defrauded driven by Greed and self-aggrandizing, the Indian did it because he lost control of his megalomaniac dreams. As he put it himself, he did not know how to dismount the Success tiger without being eaten alive.

So beware megalomaniac dreams and Success tigers, should be the lesson here for budding entrepreneurs.

But do the victims really care about the perpetrators' motives? Does a man who's been stabbed in the back give a damn whether the attacker did it deliberately or because he/she tripped and fell? The wounds are just as deep and painful in both cases. And so whether the motive is Greed or Success (Megalomania) is inconsequential to the victims.

So what lessons can the victims learn?

First, having the SEC or some other government agency as a watchdog is no guarantee of anything. The only watchdog you can trust is your own nose. If a deal smells bad, don't do it. "If you sleep with the hogs, you will smell like a hog," is an age-old adage. If you're motivated by greed, get ready to be taken for a ride by someone even greedier or more ambitious. Otherwise, refrain from gambling, especially with your life savings.

Which is why we called the entire modern "investment" set up a Wall Street Casino in a Washington Times column published over 10 years ago (see "[When Will Wall Street Bubble Burst?](#)", Aug 1998). Here's an excerpt:

"...With each year of the bull market, "America the beautiful," the "land of the free," has been getting less beautiful and more enslaved by the owners and operators of the Wall Street casino. This dangerous trend, now in its fifth decade, has been accelerating in the 1990s. In its wake, a once proud nation of producers and entrepreneurs is being transformed into a country of

gamblers and dimwits, as the Wall Street bankers and brokers are wagging the tails of the nation's business principals and shareholders.

Leading the charge to the precipice are America's modern day lemmings - the Baby Boomers - the "white slaves" of the New World Order. They are spending themselves out of house and home, lured by the thrill of the (gambling) game, and suckered into a false sense of prosperity by the paper gains of their stock portfolios.

It has all happened before. Many times, in fact, in the history of Homo Sapiens, who rarely seems to learn from history or from his past mistakes..."

And now we know when the Wall Street bubble did burst, don't we?

Happy bargain hunting!

Bob Djurdjevic

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